HOUSING MARKET OUTLOOK
Gatineau[1]

CANADA MORTGAGE AND HOUSING CORPORATION

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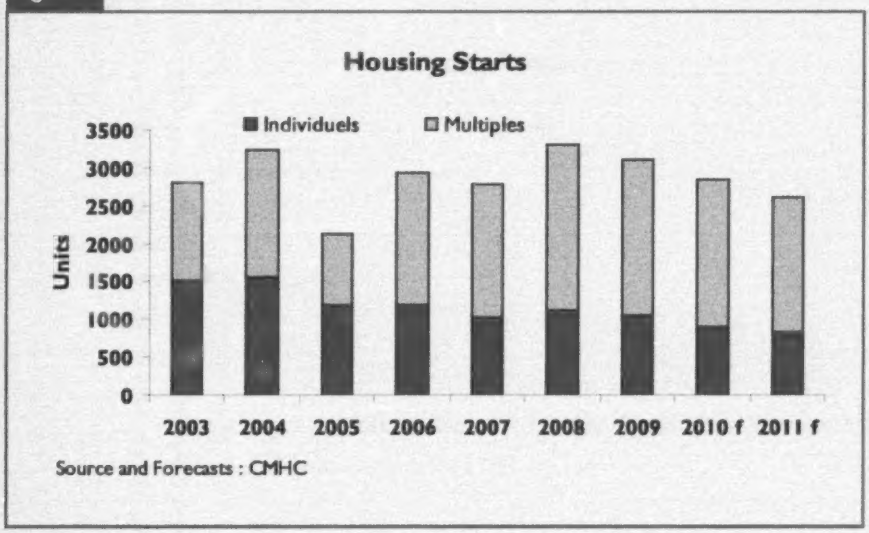
Gatineau area housing market expected to ease

Based on the first data available since the beginning of the year, the housing market will post mixed results in 2010. In fact, while sales of existing dwellings increased in the first quarter, housing construction was sluggish in the Quebec part of the Ottawa-Gatineau census metropolitan area (CMA). According to these first figures and our economic forecasts for the area, MLS® sales are expected to reach 4,500 units for 2010 overall, up 4 per cent over 2009. Housing starts will be limited to 2,750 units in 2010, for a decrease of nearly 12 per cent from the previous year. This discrepancy between the two markets will occur

Figure 1



The forecasts included in this document are based on information available as of April 23, 2010.

[1] Quebec part of Ottawa-Gatineau CMA

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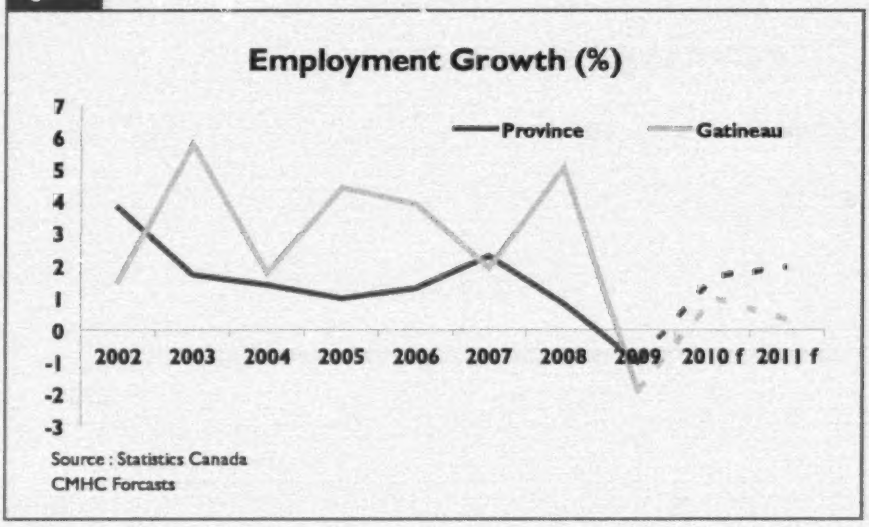
even though the economic conditions support a strong demand on both the new and existing home markets. However, given the particularly high inventory of new homes in Gatineau, the pace of construction will slow down.

The decrease in construction will continue in 2011, as less robust labour markets lessen demand. We therefore expect that there will be 150 fewer housing starts in 2011 than in 2010, for a decrease of slightly over 5 per cent. On the resale market, sales will also drop, falling to 4,350 transactions from 4,500 in 2010.

Figure 2



Job growth to slow down

The pace of construction observed in the area in the last few years will slow down on account of the weakening in employment—the main driver of housing demand. The economic downturn ended a buoyant decade, during which the average annual increase in the number of workers was over 4 per cent in the Gatineau area. Starting in 2008, the economic decline led to the loss of several thousand jobs, but since the low point recorded in the spring of 2009, the number of employed persons has been increasing.

The recent global economic growth will create jobs in several sectors, such as manufacturing and transportation. As a result, the number of jobs (168,400 in 2009 in the Gatineau metropolitan area) is expected to climb by 1 per cent in 2010 and by 0.3 per cent in 2011. The unemployment rate, currently at 6 per cent, will remain relatively stable over the next two years.

Mortgage rates

The Bank of Canada cut the target for the overnight rate in the early months of 2009. The rate was 1.50 per cent at the start of 2009 and has since fallen to 0.25 per cent. Looking ahead, we expect that short-term interest rates will begin to rise in the second half of 2010.

With the overnight rate expected to increase in the coming months, mortgage rates have begun to rise. According to CMHC's base case scenario, posted mortgage rates will gradually increase throughout the course of 2010, but will do so at a slow pace. For 2010, the one-year posted mortgage rate is assumed to be in the 3.6-4.8 per cent range, while three- and five-year posted mortgage rates are forecast to be in the 4.2-6.7 per cent range. For 2011, the one-year posted mortgage rate is assumed be in the 5.0-6.0 per cent range, while three- and five-year posted mortgage rates are forecast to be in the 5.6-7.2 per cent range.

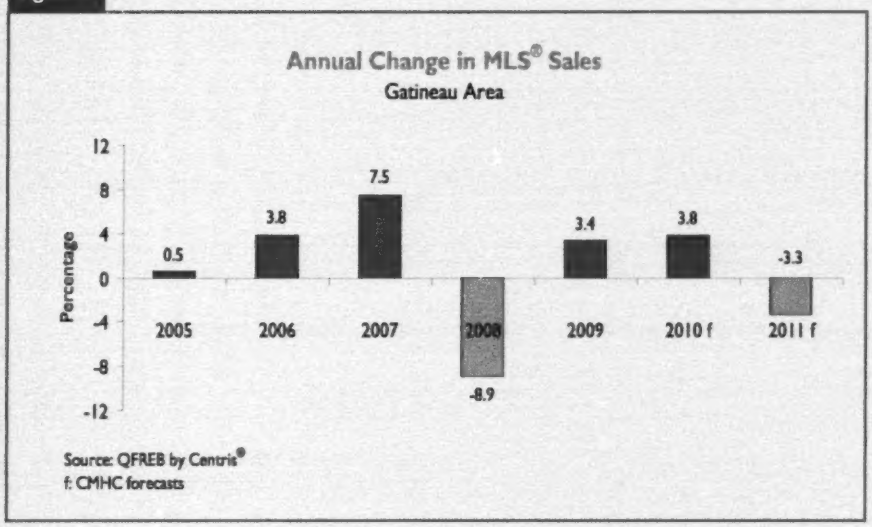
Rates could, however, increase at a faster pace if the economy recovers more quickly than presently anticipated. Conversely, rate increases could be more muted if the economic recovery is more modest in nature.

Positive net migration

In the next two years, the Gatineau metropolitan area will still benefit from positive net migration, but the gap between the numbers of in-migrants and out-migrants will decrease in 2011. The housing market will be able to count on a gain of 2,600 people in 2010. Of these people, 40 per cent will come from immigration. Most of the other in-migrants will come from other regions of Quebec and, to a lesser extent, from elsewhere in Canada, particularly Ontario. The favourable economic conditions and lower unemployment rate in the area will help both keep residents here and attract new ones.

In 2011, a weaker job market will limit the migration gain to about 2,100 people. However, the strong immigration expected across Quebec, the regional unemployment rate—one of the lowest in the province—and the numerous advantages granted to young families will help keep net migration positive in the area.

Figure 3

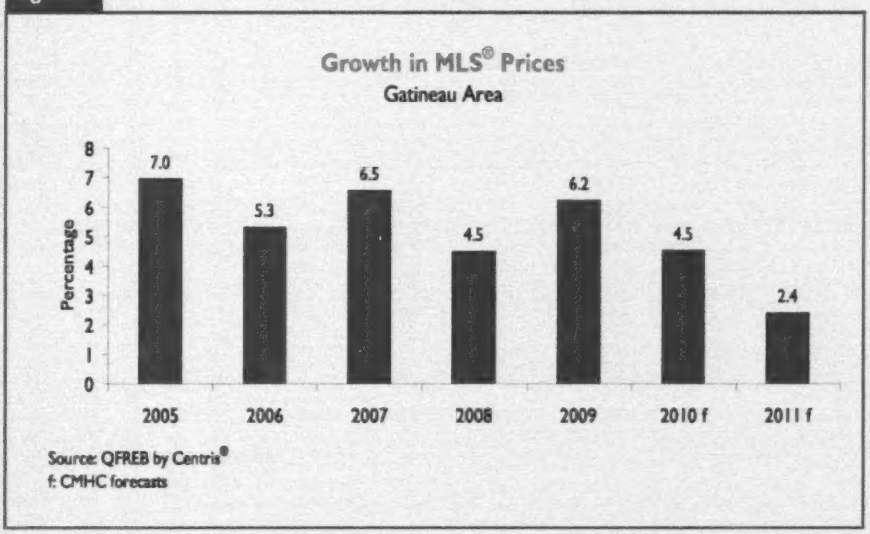


In addition to migration, natural growth and the aging population are other factors that will sustain housing demand. About 2,400 households should be formed in 2010 in the Gatineau metropolitan area, followed by an additional 2,300 households in 2011.

Resales to drop in the coming months

In the Gatineau CMA, the first quarter of 2010 was characterized by a strong demand on the resale market. Single-family home sales set the tone at the beginning of the year, with an increase of 204 transactions (or 29 per cent) over the same quarter in 2009.

Figure 4



Condominium and rental building sales also followed the same trend, but to a lesser extent. This strong rise in demand was primarily attributable to the rapid improvement in economic conditions. In fact the rebounding labour market and exceptionally low interest rates brought back a large number of buyers that had left the market during the recession. Demand was also driven by the anticipated increase in borrowing costs. Wanting to take advantage of this extraordinary opportunity, many buyers moved up their purchases, before the rates start rising.

However, this convergence of demand at the beginning of the year could lead to a decrease in activity during the second half of 2010. The changing financial context, notably the increasing mortgage rates—already under way for five-year fixed-term loans—will also impact demand, especially in the case of first-time buyers. The expected slowdown in the second half of the year will bring back the growth in existing home sales to an average annual rate of 4 per cent. In all, sales will reach 4,500 units in 2010. Demand will continue to slow down in 2011, as well.

Despite the fact that in the first quarter of 2010, the average price was up by more than 6 per cent year-over-year, a slowdown has occurred. Although demand will weaken over the coming quarters, the limited supply will support price increases in the short and medium terms. In fact, many homeowners who took advantage of the renovation tax credits will likely want to enjoy the improvements made to their home and decide to stay put. In addition, the aging of the population is bringing to the market some sellers who are less in a hurry to sell, which is increasing the number of higher-priced

transactions.

Finally, the strong demand observed in the past few months has created such a large gap with supply that the market will remain favourable to sellers this year. This is especially the case for single-family homes in the lower price ranges. At the time of writing, the seller-to-buyer ratio was below 5 to 1 for single-family homes priced at under $250,000 while, in the upper-range market ($300,000 or more), this ratio was close to 11 to 1.

The average price of existing homes sold on the Gatineau market was $206,005 in 2009. This average is expected to reach $215,300 in 2010 and $220,500 in 2011, for gains of 4.5 per cent and 2.4 per cent, respectively.

Housing starts to moderate in 2010

The more limited supply of resale homes normally promps buyers to turn to the new home market. However, the first data available for 2010 show a slowdown in housing starts in the Gatineau area. In fact, after four months, starts show a decrease of 27 per cent. This situation stems from the high volume of construction recorded last year, and which caused the inventory of new homes to swell. Developers therefore were able to meet demand by selling off this surplus before starting to build new homes again. Although demand will weaken in the short term, construction is expected to pick up slightly during the year. For the year overall, however, the level of activity should drop by 12 per cent from 2009. In 2011, housing starts will continue to decline, with a forecasted decrease of 5 per cent.

The anticipated decline in residential construction over the next two years will be mainly attributable to the single-detached housing segment. The bleak employment outlook in the area, especially in the higher-paying economic sectors, will hinder these generally more expensive dwellings. The scarcity of lots will exacerbate the situation by putting upward pressure on the final prices of new homes and therefore limit demand. Finally, the densification phenomenon in Gatineau will favour the construction of multiple-unit housing over single-detached homes. For these reasons, we believe that 900 single-detached homes will be started in 2010, down nearly 160 units from 2009. In 2011, a further decrease of 75 units is expected, such that starts of this type should reach 825 units.

A decrease in multiple-family housing construction is also expected. In fact, after a total of 2,060 units recorded in 2009, starts should fall to 1,850 units in 2010 and then to 1,775 units in 2011. This decline will not impact all multi-unit housing types however. The price increases recorded over the last decade encouraged builders to offer more semi-detached and row houses. Scarce on the resale market and more affordable than single-detached homes, their starts volumes have been growing steadily in the last few years. And this year will be no exception, as such dwellings are evidently the most sought-after, in relation to the supply on the market. In 2011, however, the pace will slow down given the less favourable economic outlook and the fact that many buyers will have moved up their purchases to benefit from the low mortgage rates in 2009 and 2010.

In the case of apartments, construction is expected to ease in 2010 and 2011. The large numbers of new condominium apartments to be absorbed on the market are forcing developers to slacken the pace for this type of dwelling. After the first four months of the year, condominium starts were down 40 per cent year-over-year. Even if new projects will be started by the end of 2010, the year will end with a decrease in activity for this category of housing.

The same holds true for the traditional rental apartment market. While the latest vacancy rate data reveal a relatively tight market in the Gatineau metropolitan area, construction in this segment has remained quite modest to date in 2010. Developers may be acting prudently, given the shift to homeownership that has continued throughout the last 12 months. This slow start suggests that total housing starts in this segment will decrease in 2010 and then stabilize in 2011.

As for retirement rental housing, construction, which was almost non-existent in 2009 (27 units), is bound to pick up this year. Despite a vacancy rate that stood at more than 17 per cent in February 2009, new apartments were announced this spring. It would appear that over 120 units will be started in 2010 and more than 200, in 2011.

Finally, builders will be active in all sectors of the metropolitan area over the next few years. The Aylmer sector will see the most construction in 2010 and 2011, thanks to the many lots developed there. Activity in the Hull sector, limited by the scarcity of lots, will post renewed growth with the plan to revitalize downtown. In fact, a project with over 140 condominium apartments is now is its presale phase.

Vacancy rate to remain low in 2010

While the rental housing vacancy rate will remain low this year and in 2011, it will rise slightly. From 2.2 per cent in October 2009, the rental housing vacancy rate will increase to 2.4 per cent in 2010 and then to 2.6 per cent in 2011. The movement to homeownership will cause rental market conditions to ease somewhat in 2010, while weak job prospects, combined with lower positive net migration, will push up the vacancy rate in 2011. The few vacancies will allow for an increase in rents in 2010. The average monthly rent should hit $705 this year and $720 in 2011.

The vacancy rate in the retirement rental market segment should rise again in 2010. This increase will be attributable to the recent level of supply. It should be recalled that the number of units for seniors has been growing steadily for the past few years and that close to 200 rental units were completed in the Gatineau area in 2009. The additional supply may stimulate interest and attract new clients, but the significant increase in supply compared to potential demand has created a surplus that will likely take a few years to be absorbed.

Forecast Summary Gatineau CMA Spring 2010							
	2007	2008	2009	2010f	% chg	2011f	% chg
Resale Market[1]							
MLS® Sales	4,603	4,193	4,335	4,500	3.8	4,350	-3.3
MLS® Active Listings	2,228	2,200	2,181	2,200	0.9	2,200	0.0
MLS® Average Price ($)	185,590	193,911	206,005	215,300	4.5	220,500	2.4
New Home Market							
Starts:							
Single-Detached	1,037	1,120	1,056	900	-14.8	825	-8.3
Multiples	1,751	2,184	2,060	1,850	-10.2	1,775	-4.1
Starts - Total	2,788	3,304	3,116	2,750	-11.7	2,600	-5.5
Average Price ($):							
Single-Detached	231,136	243,887	261,948	270,000	3.1	276,500	2.4
Semi-Detached	139,840	167,625	188,606	198,000	5.0	204,000	3.0
New Housing Price Index (% chg.) (Ottawa-Gatineau)	1.8	3.8	1.8	3.0	-	3.0	-
Rental Market[2]							
October Vacancy Rate (%)	2.9	1.9	2.2	2.4	-	2.6	-
Two-bedroom Average Rent (October) ($)	662	677	690	705	-	720	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.90	6.70	4.02	4.23	-	5.56	-
Mortgage Rate (5 year) (%)	7.07	7.06	5.63	6.20	-	7.06	-
Annual Employment Level	163,300	171,700	168,400	170,000	n.a	170,500	n.a
Employment Growth (%)	1.9	5.1	-1.9	1.0	n.a	0.3	n.a
Unemployment rate (%)	5.5	4.8	5.9	5.9	-	6.2	-
Net Migration[3]	1,648	2,766	2,700	2,600	-3.7	2,100	-19.2

MLS® is a registered trademark of the Canadian Real Estate Association (CREA)

[1] Source: QFREB by Centris®

[2] Privately initiated rental apartment structures of three units and over

[3] Migration data for 2009 is a forecast

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), Statistics Canada (CANSIM), QFREB by Centris®, CMHC Forecast (2010-2011)

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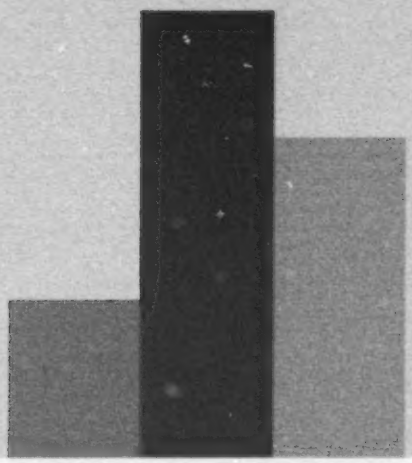

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